"Titan Company Limited Q1 FY'19 Earnings Conference Call"

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Moderator: Good day, ladies and gentlemen, and a very warm welcome to the Titan Company Limited Q1 FY'19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded. I now hand the conference over to Mr. Bhaskar from Titan Company Limited. Thank you and over to you sir.

Bhaskar Bhat: Thank you. Good Evening. Thank you for being on the call. We have uploaded our presentation already. I will just give you a brief introduction. The quarter has been a good quarter as far as bottom line is concerned though growth has been lower than our targeted growth, PBT however has been much better than the targeted PBT, primarily in Jewellery alone, the growth was poorer, we have gained market share once again because whatever we know of competitor sales, they have actually declined and also many of you are aware that there was almost a shift of about Rs.250 crores sales in the last year in June and last June quarter itself was a very high growth and growing on top of that is what we have targeted, nevertheless, that is the reality.

Watches has done well with the growth. The only thing is if we were to see the GST correction in terms of the income, this time if you were to correct it, the top line would be 21% in comparison to last year although on paper it is lower.

Eyewear has also done well by way of growth. However, Eyewear has also been aggressive in terms of advertising. EBIT margins have been good. We added 46 stores during the quarter with 44,000 sq.ft. and we also disinvested our Goa company Titan TimeProducts Limited; it was an electronics manufacturing services in Goa.

I think we will move on to Q&A, as many of you must be waiting. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Just wanted to kind of first ask on jewellery segment. Now, even if I adjust for the Rs.250 crores advancement of sales, we are looking at almost about 14% sales growth only in the first quarter. In that context, do you still retain your guidance of 25% sales growth for FY'19 and addendum to that how July has been, does it support that?

C.K. Venkataraman: The primary purpose of that 25% growth for the year is two things; One is an increase in the market share for FY'19 and building the trajectory for FY'23 of doubling our market share. The second is an improved profitability which comes with that kind of growth. We have certainly achieved our market share gains in general terms in Q1 even though we have about 10 percentage points below in terms of sales growth and we have certainly achieved and exceeded our profit targets for the quarter. So, in that sense, substantive part of the ultimate reason for 25% growth has been achieved in Q1. Now, July itself has been pretty good; growth in July is close to 70%. If I remove depressed part of July for the first three weeks which was depressed because of the advancement into June last year and I look at post that it is a healthy

40% growth. So, we are not going to be holding to the 25% for the year because that is a little frankly mathematical kind of thing, in the sense taking the entire shortfall of Q1 into the nine months but I would hold on to the nine months target that we had originally set for ourselves.

Avi Mehta: When you say you hold on to the nine months, you are saying, let us remove whatever happened in Q1 and for the remaining nine months you will still kind of target 25%?

C.K. Venkataraman: You remember I clarified the growth target for Q1 was 15% in the conference. Against that 15%, we have achieved only 4%, right. The purpose of that 15% was to increase the competitive advantage, market share and achieve certain profit growth. This year we achieved all that, even though we have not achieved 15% because the industry seems to have declined between 10% and 25%.

Avi Mehta: So, whatever the implied nine months that you are still retaining, it is just the three months, that is how I should see it?

C.K. Venkataraman: Correct, July is supporting that.

Avi Mehta: The second bit was on the margin expansion in the jewellery segment. Now, despite a very muted if I may say only 10% growth in the Studded segment, you have been able to show almost 100 bps margin expansion. Now just wanted to understand the nature of this, is this the new launches, and in turn because of the ability to attract our customers to higher value products which basically moves up to structurally higher margin level or what exactly is it? What I want to understand is as we long as we continue with this thing that we are doing which is what we are doing, right in terms of innovation, would it be fair that we are actually at this level as a new base and if not why?

C.K. Venkataraman: The 100 bps expansion came I would say almost 50:50 from gross margin expansion and overhead compression. Part of that overhead compression was also advertising-led. Gross margin compression, we had a small improvement in the studded share like you said 10% as opposed to the 4% overall growth. So, the cost compression is more a quarter phenomenon, because I do not expect that cost compression advantage to come in. We are gunning more for the target of profit for the year rather than now looking at this as a new normal in terms of the EBIT margin of the quarter for the year.

Avi Mehta: The Watch performance has been very healthy. Does it suggest that we are back to the double-digit growth levels and 15%+ margins that we have traditionally associated with this segment?

Ronnie Talati: Your first assumption is right, we are back to double-digit growth for sure. 15%+, I am not sure, but certainly a double-digit growth and margin also.

Moderator: Thank you. We will take the next question from the line of Vishal Gutka from PhillipCapital. Please go ahead.

Vishal Gutka: I have three questions basically. First thing is regulation on gold exchange, which really a good amount of our sales come from gold exchange. So, do you foresee any adverse regulation coming from government side given the two things; good amount of exchanges coming from the form of bar and coins rather than the old jewellery? Second thing is that unorganized sector can escape 3% GST. So, second question is on the Golden Harvest Scheme. So, some of your competitors instead of taking monthly EMI, they are taking pure gold on day-1 and after 11-months they are giving jewellery waving of the making charges. Do you think these schemes are compliant with the law of land? Third question is on the collection part, sir. So, basically you have launched three collection; one is Gulnaaz, Lavanya and Aveer. So, Gulnaaz, this will basically to target towards the high end. So, what is the traction on that front? Secondly on Lavanya that we launched in South India. Given that there is a high competition in south India and the market share is quite low vis-à-vis the national average, what are you doing exceptionally well to gain share out over there?

C.K. Venkataraman: On the first one, the regulations on exchange, the more we are exchanging, the more we are actually aligning with the purpose of the government or domestic consumption of gold from within the stock of the country. I am not sure about what kind of regulation is potentially sitting as a threat for that, we are not really concerned with that. Typically, the customers who sign up for the Golden Harvest of Tanishq or the equivalent of any other brands is first a customer who is seeking that brand. Only when that person is seeking that brand will she or he sign up for that jewellery purchase scheme. So, to that extent, somebody is offering a more attractive scheme, waiving of making charges and all that, is not really important because we fight at the brand level first and thereafter the Golden Harvest kicks in. Third one is Gulnaaz is a national collection, very successful. Aveer is a niche entry into an emerging segment. We are very-very excited and satisfied with the early responses. Lavanya is a collection for South India. One of the things, yes, which is being used to become more relevant in weaker markets like Chennai and Kerala and all that, that is my answer to all your questions.

Vishal Gutka: One last thing on Golden Harvest. Basically, I was trying to see because some of the competitors instead of taking EMI, customers basically taking 100 gms gold and at the day-1 is 100 gms gold and end of 11-months we can take 100 gms gold of new jewellery and they waive off the making charges. So, are there schemes compliant rather than making EMI payment to purchase gold?

C.K. Venkataraman: I do not know about the compliance part. All I know is about the 12% rate of return. So, if the imputed value of the waving of making charges is in excess of 12% imputed return, then they are not complying. Whether you can give gold and all that, we are not even thinking about it frankly.

S. Subramaniam: There is an impact in a way but the point is that if somebody were to keep gold rather than cash, it is possibly because they want to not come under the ambit of the Companies Act or any other act for accepting deposits. So, whether it is compliant, therefore it is something that maybe the RBI, SEBI or MoCAs have to …

Bhaskar Bhat: I suspect the following: With the overall point on the gold exchange that you asked, the GST waiver, I suspect that the government will look at that as in yes, there may be some bullion dealers who operate but the larger interest, making it easier for gold lying in the vaults when the safe deposit lockers of consumers coming out, is I think that is being served, and the more manufacturers like us encourage that. So, we can also see independently the government coming down harshly raiding and all that so that deterrent is there. It is like one black sheep should not spoil the party. That is the judgment I have. The gold bit, this GHS, we do not know in what manner this is because we know that in every jewellery shop, the manner of building also is so compliant, I am sure they must be figuring out a way of compliance that every transaction maybe exchangeable. I think there are ways that we are not bothered… not impeding our growth.

Moderator: Thank you. We will take the next question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir, my first question is on the Eyewear, 16% growth, the profits are very limited. So, what is the growth ex of sunglasses? This high advertising spend, will it continue -- is it largely because Lenskart has done well in the past few years, so is it a catch up from you taking market share, so it will be a multi-quarter high ad spend?

Ronnie Talati: Actually, we are on target. If you remember, our business plan presentation that we have done earlier this year, we had said that we would target volume growth from now on, we would target customers on our journey towards 10 million customers a year over a period of 5 years. We are well on our way to achieving this. In our first quarter we had targeted secondary growth in retail of 11%, we have achieved 15% and we had targeted like-to-like store growth of 5% and we have achieved 8%. So, we are well ahead of our target as far as our retail growth are concerned. Even the first month of the second quarter in July, our volume sales are increasing. So, we are well on our way to doing our targets for the year. If you remember we have taken overall target of 26% growth for the year and we are on our way to achieving that.

Abneesh Roy: Sir, two follow-ups here. You had also said on the lower end you will be entering. So, what is the status on that? My question is on the ad spend. Will that remain high because you are meeting the target already, so does it mean that the ad spend may not be required to this level?

Ronnie Talati: No-no, the ad spend is a conscious decision that we are increasing our ad spend. Whether we do well, or we are not doing well is not the criteria, we are putting significant monies into advertising, again if you remember our business plan, while we are taking high growth of 25% for the year we are looking at a profit margin that is fairly muted because of the high ad spend. So, that will continue right through the year. The real purpose is customer acquisition, getting a new customer. As far as lower priced products are concerned, they are in our stores, we ran activation in the first quarter to clear out all our high-priced products to make room for these low-cost products. So, these lower cost products are in our stores now and they are being backed by advertising campaign which is currently running on television and was running during the India-England One Day Series also. That has got us very good traction so far.

Abneesh Roy: So, is that the reason for high growth in the Sunglasses, getting rid of the high-priced?

Ronnie Talati: No, I am talking about the Eyewear business. Sunglass high growth is mainly because last year the growth was very low in Sunglasses because of GST and so on, the high rates of GST came in, and we had to pull out our activation at the last minute. This year our activation has gone through well, the market has received our new products well, the Fastrack campaign for sun glasses was on television that did well. So, the growth in sun glasses have been very high compared to last year.

Abneesh Roy: My second question is on CaratLane. You have mentioned the 26% growth is largely because of network expansion. So, the growth in online, has it been limited? On network expansion these three stores, what is the expansion plan for the full year?

C.K. Venkataraman: Growth in online was muted, Abneesh in the first quarter and we are looking at pushing it up going forward. I am not immediately recollecting the network expansion plan for the year. So, I will mail it to you separately?

Abneesh Roy: Sir, one follow-up here. Any particular reason online did not do that well, is it similar to Tanishq sales also getting impacted because of sentiment? In the past, you have rationalized one brand, GoldPlus was phased out. In that context, CaratLane over longer-term, does it make sense to have too much of physical stores because the main idea behind this business was the online learnings and scaling up online. So, now if you do physical stores and a lot of the growth is coming from there, longer-term why have two brands in the physical space?

C.K. Venkataraman: CaratLane acquisition was for three reasons: One was the customer segment that CaratLane was addressing was distinctly different younger from the customer segment that Tanishq was addressing. The second was the online and the technology aspect of the business. Third was the entrepreneurial team and spirit of that enterprise. So, thereafter what is emerging is that women or that young man is actually more and more comfortable buying from the store after doing a lot of research online and in a way the omni-channel aspect of jewellery is starting to play out. So, what is critical for us is actually to deliver a certain acceptable level of financial return from the business by running the model right rather than worry about how much of share is coming from online versus offline. So, that clarity we have reached and we are running to that thinking. I am only saying this is the portfolio aspect of it unlike GoldPlus and the Tanishq where we were targeting more or less the same customers.

Moderator: Thank you. We will take the next question from the line of Vivek Maheshwari from CLSA. Please go ahead.

Vivek Maheshwari: My first question is on the grammage decline in this quarter. Is it just because of the base or because there was an inflation in gold price because of which there was a decline, what would you attribute that to?

C.K. Venkataraman: It is a small growth in sales value and I think medium single digit in price of gold and therefore a small decline in grammage.

Vivek Maheshwari: Venkat, one another thing, you have been talking about gaining market share. But in overall industry which is declining and you pegged it at 10-25% if I understood it correctly, over the longer-term what would be your base case – the overall market growth or there is some change from a customer pull perspective also beyond wedding given that gifting option, number of other things have emerged, so would you worry on the overall market growth rate because in a declining market, gaining market share is great, but how would you think about this issue?

C.K. Venkataraman: It is also little peculiar situation, Vivek. Our own sales grew more than 100% in June '17 over June '16. So, on that base, we have declined 18%. So, from CAGR point of view, actually it is 25% or more CAGR on '16. Therefore, we have to discount the June of '18 and go forward and look at this problem from a slightly longer-term if it occurs. I understand that if the market continues to decline continuously from a longer term point of view, it is of course will be challenging to grow sales and grow share, but it is just one month. But technically because we have grown 4% in the quarter, and other appear to have declined between 10% and 25%, we have gained share.

Bhaskar Bhat: Also, my assessment is, overall in the formalization of the economy and competing opportunities in the financial investment is certainly competing with gold. These are never dependent on gold as an investment for our growth. The other part which is jewellery as adornment, certainly showing very good growth and it has consistently been growing even in our portfolio. So, therefore, whether Rs.250,000 crores, 700 tons, all that will happen is certainly too early, right now formalization is kicking in and it is kind of stabilize, even GST. So, I do not think we should worry too much about whether there is going to be a general decline in demand or compression.

Vivek Maheshwari: Last one on the margins on Watches again. I heard your comment about double digit margin which was the case last year also, but anything to bear in mind when we forecast rest of the year, any one off in this 18.8% and if not then why are you not confident on sustaining these margins?

S. Ravi Kant: We talk about it I think almost in every call that the right thing to look at is the margin at the end of the year taking all four quarters into account. Because what tends to happen is from quarter-to-quarter, there are various things which come into play, the margin going up or coming down from reasons like in one quarter in the previous year the same quarter is an activation, this year there is no activation. Brand mix and channel mix in Watches has a huge play. So, various things are there which is why we have always said in the past that take a look at margin growth and margin per se at the end of the year and that is what we are really monitoring. Now last year we crossed the double-digit margin after 8% in the previous year and this year also like I just mentioned to earlier on that 15%+ is certainly not what we are looking at and what it is likely to be, certainly be double-digit and hopefully better than last year, that will be our effort.

Moderator: The next question is from the line of Nilay Shah from Morgan Stanley, please go ahead.

Nilay Shah: Venkat, I did not get your numbers for jewelry guidance, if I can call it that for the year. You basically mentioned 25% growth or 20%+ growth is what you are looking at for full FY'19, is that what you said earlier?

C.K. Venkataraman: No, what I had clarified was that 25% growth as 15% in Q1 and more than 25% in nine months. You may remember at the end of the conference, I had clarified that the first quarter because of the big base is 15% growth as opposed to an average of 25% for all the quarters. Now that 15% we have not achieved because of our underestimation of the challenge of the June month base, So, therefore for Rs.300-400 crores we are short on Q1 even though we have achieved our market share targets, we have achieved our profit targets. So, we are holding the nine months targeted growth which is implicit in that 25% and 15%, but not adding back the short fall into the nine months. Is that clear?

Nilay Shah: Yes, it is clear. Second question is you spoke about the growth in the month of July, that is coming just before your activation I think started towards the end of July or starting of August. Is that an unusual occurrence such strong growth even after adjusting for that base is at 40%, such strong growth just before an activation period?

C.K. Venkataraman: It is not before, it includes the full activation period of July in both years.

Nilay Shah: Any one-offs in the margins in the jewelry business, I know it has got impacted to some extent by the weak revenue growth itself, but still much below what you have done in the last three or four quarters?

S. Subramaniam: There is no one-off.

Moderator: Thank you. The next question is from the line of Amit Sachdeva from HSBC, please go ahead.

Amit Sachdeva: Venkat, what was the recycle gold percentage this quarter?

C.K. Venkataraman: 29% from the general exchange program which is we are buying jewelry from others, so 43%.

Amit Sachdeva: I was wondering because why jewelry margins have expanded so much where I would assume that the gold exchange program was also extended for most of the quarters with 100% exchange and also the operating leverage apparently is not there because if I were to recollect 5.7% growth is there, but it also has 14-stores from the last quarter added and 10 this quarter, so there is some large number of store additions also are there, so I would assume that same-store sales growth would be pretty challenging for the quarter. So, how much mix was influential there, I mean I am just trying to make sense of why margins have expanded in such a quarter so much, somebody has asked this, but if you can give some more color, how we should think about margins and what levers we have on the cost side as you see some of these quarters where the growth is slightly missing?

C.K. Venkataraman: On the share of exchange, difference between Q1 of FY19 and FY18 is only marginal, it is only about 3%, so 40 going to 43%, so to that extent, the impact that you maybe perceiving may not be that much, that is one. The second is we make money also by selling more differentiated products, you are seeing grammage decline or whatever, you are not seeing its making charges that we are realizing when we sell our products, which is a product mix aspect of it, plus studded jewelry has grown more than plain jewelry even though the total growth is only 4.5%. So, there is a kick-in which comes in on account of the product mix, there is a kick-in which comes in on account of higher making charges in gold jewelry and these two directly contribute towards the gross margin expansion. We have kept cost really under control. So, like I explained earlier, about 50% of the contribution to the EBIT expansion came from GM and 50% from cost. Now, it is not like a formula for the future, but cost was peculiar situation. We also had business conferences in the first quarter of last year, which were not there this year and that is from a quarter point of view significant item and therefore we were able to keep the cost almost at last year level and rupee gross contribution went up because of what I said, even at 4% sales growth and that is how we got the 110 bps.

Amit Sachdeva: Just one small thing, basically, was there some channels stocking element as well because I assume that if just ahead of the studded quarter, was that some channel filling which has Q2 studded as well as new L3s have joined in or was it some uniqueness about channel filling as well in this?

C.K. Venkataraman: Not really, because sales growth itself was muted. If there was channel filling, then the sales growth would have also been there, just 4% sales growth.

Amit Sachdeva: But was there a channel destocking when we see this growth or channel was not behaving anything abnormal?

C.K. Venkataraman: They are not destocking, but there is no major up-stocking, it is normal. Even last year they would have bought ahead in end of June for the activation, this year also they would have got.

Amit Sachdeva: July number that you said, I just missed out, what is the July growth that you spoke about was 70%?

C.K. Venkataraman: 70% is the growth, but before you all get very excited about that, just to give a perspective, the first 20-days of July of ‘17 were pretty sad because of the post-GST phenomena, so on that we have grown some 93% and post that was a normal period, on that we have grown about 40%, so that 40% is actually is real growth even though it is a very healthy growth to project for the rest of the quarter, but it is certainly quite satisfying, it indicates that things will be good in August or September.

Amit Sachdeva: That is very good to hear. So, I think 25% guidance that you are giving for at least remaining nine months as this is the old formula stays, which is more than 25% and the base is also not uniform, and if I look at base for the next quarter is about 35% going to 7 and then going to 13, so how do you see it like, this 40% on the base of 35% or may be that you expecting more than 25% this quarter?

C.K. Venkataraman: Yes, we are certainly expecting more than 25% this quarter, that is how the year's 25% is built.

Amit Sachdeva: Sure, but then Q3 should be substantially better because entire season is coming in Q3 and the base is like 7%, so would not make a case for, why you have to then downgrade a guidance of 25%, maybe the short fall in Q1 could have been made up in Q3?

C.K. Venkataraman: But whatever bases we had for planning Q3 four months back that bases have not changed us because we had a short fall in Q1, right.

Moderator: Thank you. The next question is from the line of Abhishek Ranganathan from Ambit Capital, please go ahead.

Abhishek R: My question is on the remaining nine months growth. So, maintain a target what we had been set out earlier and keep it for nine months, we need to grow about almost 30% for the next nine months. What will be the centerpiece of this growth, could you break it down in various categories and given that the demand has been so far, how do we see, what are the risks to this particular number?

C.K. Venkataraman: Actually, Abhishek, just to clarify, we are not adding back that short fall of first quarter into the nine months, I have clarified that, I am saying that 25% was broken as 15% for three months and whatever resultant may be 30% for nine months, right. So, compared to that 30%, we are 70% in July, which I clarified it is in a way overstated, but it is 40% in the like-to-like part of July, which is decent certainly compared to the 30% growth. So, it is the same drivers which those five things that we have spoken about over the last two years, which is what gave us the growth last year also, last year we grew 25% on the same high value, now we got an exchange also, high value wedding, expansion and so on. So, we are on target on expansion, the number of stores we opened in Q1 is on target, the number of stores months is on target, the per store sale is on target. So, on the expansion side we are pretty gung-ho. We may hopefully exceed the target. So, the same driver, it is just that in the month of June the complication came, the gold rate also zoomed beyond expectation and we lost may be a couple of Rs.100 crores of sales in June which we cannot make up.

Abhishek R: Allied question to that is that, how do we see growth in the wedding and non-wedding? First quarter I presume, you could have made this. If you could help us understand that for the Q1 and in the remaining nine months how should we view this, because last year wedding grew almost 70%-odd?

C.K. Venkataraman: Yes, the number of wedding days in Q1 was less, but in order for us to continue this even before even earlier, so this is not a post facto realization, but because the 25% target for the full year was stiff to start with, despite a very high base in Q1 we had taken a challenging 15% target, which meant that in the month of June we have to actually exceed last year's June, which was 100% growth over June ’16. So, it was a very-very challenging target to start with and how challenging it was struck us after we failed to achieve it frankly. Because YTD May we grew 20% and in June we declined 18%, that is how the 4% came about. The reason for the 4%, partly wedding days, partly gold rate and now we are starting to catch up and the confidence is very high, more and more of the engines are firing, the exchange program in a big way, we started marketing the exchange around the 10th of June, so the momentum has built up, we did a lot of exchange sales in July, so the share of exchange will go up, the ticket sizes will go up because the exchange customers typically come and buy at one-and-a-half lakhs and two lakhs and all that, so there will a certain momentum effect toward this. Gulnaaz has been exceedingly successful, whereas last year the Jewels of Royalty collection in July was not that successful which is why 40% growth in the activation has also built on Gulnaaz. We have launched diamond line in the affordable less than Rs.30,000 which is doing exceedingly well and converting budget gold customers. So, there are multiple weapons working and working well.

Moderator: The next question is from the line of Rakesh Jhunjhunwala from Rare Enterprises, please go ahead.

Rakesh Jhunjhunwala: Congratulations on great results. I have two questions; I would like to have your comments on the Watch margins, because you have 18% margin in this year in the standalone and then you say that we can only commit to a double digit margin, you want me to think your margin will come from 18% to 12?

Bhaskar Bhat: We have to look at in one perspective, Rakesh and Ravi can unscramble that a little more. These margins is driven by one fundamental change in the mix in the quarter which is Titan, the brand Titan has grown disproportionately and that growth rate is not sustainable QoQ only because there is a scheme that followed that primary push. So, there was a stocking up in the quarter which is what we have to look at and it is the most profitable brand….

Rakesh Jhunjhunwala: Bhaskar, at the retail level, Titan brand has not outgrown the other brands?

Bhaskar Bhat: It has not outgrown the other brands, in the large format store channel, yes, but World of Titan for example, it is not significantly different growth rate; however, the correction that we had undertaken that is happening. It was in fact subdued in terms of growth in the last year, etc., and now it has come back to growth. But this profit that is sitting at whatever 18.8% that you are seeing is primarily on account of the significant growth in the Titan brand.

Rakesh Jhunjhunwala: That means the other measure that you have taken to improve your margins have not contributed much?

Bhaskar Bhat: They have, no, 18.8% is a combination of several things.

Rakesh Jhunjhunwala: I agree that the mix move is unpredictable, right, but there are other factors also which are as important which help to increase the margins?

Bhaskar Bhat: Let us explain that to you, that is why I said unraveling it. The second bit is the eCommerce channel for example which is growing quite fast is the most profitable channel. So, channel mix is also helping us. Now it is not specific to this quarter that the channel mix has helped to take it up to 18.8%, there are compression of cost that has happened.

Rakesh Jhunjhunwala: I understand what you are saying I should be mistaken. You are saying three factors; one is compression of cost, one is because the channel mix is going in favor of the online which is most profitable and third, because the mix was Titan brand got sold most. What is unpredictable is the Titan brand, will be mix of the brand? But the fact is that the online is growing is a trend, is to grow and your cost compression is a reality, I do not know, anyway it is okay, it is not the only reason, I think we have been pessimistic on the margins what I feel personally, I could be wrong.

Bhaskar Bhat: No-no, Rakesh, there are two more things, I did not complete the statement. Ravi just actually added to that. One is also this business associate meet effect, which is not there in the current quarter, for the company it was Rs.20 crores, Rs 11 crores was in the Watches last year. That is not there in this quarter.

Rakesh Jhunjhunwala: That will not be there in the next quarter also no?

Bhaskar Bhat: My point is that the significant improvement of the Titan brand and it was primary, therefore the sustainability of that is certainly not going to be positive.

Rakesh Jhunjhunwala: The mix by the sale of online channel in the cost compression is not so important?

Bhaskar Bhat: Important enough but that is the sustainable compression and improvement of margin. Targeting 15% is a valid point, Rakesh, but the target…

Rakesh Jhunjhunwala: You are not admitting 15% no, you are saying it will be above double digit, if you said 15%, that is reasonable, so it could be 11, 12 which is what I find surprising?

Bhaskar Bhat: 15% is the target, certainly not for the year.

Rakesh Jhunjhunwala: How many customers do we have in Eyewear now? We are targeting 10 million in five years.

Ronnie Talati: We ended last year with 2.4 million customers, Rakesh, this year we are targeting 3.7 million customers which is the growth of 54% in a number of customers.

Moderator: Thank you. We will take the next question from the line of Vicki Punjabi from JM Financial. Please go ahead.

Richard: This is Richard here. I just want to continue on the topic of watches. So, I see that World of Titan retail growth is about 3% and you reported primary growth is about 20% and I also see that fine print in that retail growth slide which says that watches not world of titan channel is at 50% of revenue and with LFS also at about 17%, does it mean that the distribution channel the primary growth in that has grown something like 50%-60% or something like that during the quarter?

S. Ravi Kant: You are absolutely right. So, there are various things, one is in terms of the up-stocking that we were talking about it is the trade channel which is a distribution channel which grew very well in fact there the growth is very close to 40%. We also did some restructuring of our margins with the dealers and that helped. Coming to specific retail growth in Watches in WOT and FTS, last year we had on completion of 30 years of Titan we had 30% off flat sale, we did very well in the month of June. So, if you look at our growth in retail in the retail channel April was very good I think at around 9%. May and June is when it dropped. And that was for the reason of both World of Titan and in Fastrack store we had the activation of 30% which was not there this year. So, that is really the story there. But the LFS channel as well as the Helios stores has done very well. We have gained market share this year in the large format store channels.

Richard: Is there any way you can help us, try and forecast how will this unwind in the coming quarter 2?

S. Ravi Kant: So, our trade channel like I was saying has done very well. Over the next, over the coming quarter we have plans to apart from introducing new products, we have to ensure that their stock finally sells out. So, there are various things being planned to ensure that the retail is much better. So, that their stock levels come down and the primary build up that we were talking about is then retailed out. So, that is how it will, the primary therefore will slow down which is why the margins we were talking about will not be similar to the first quarter. We had an activation starting on the 30th of June for brand Titan which is why all the channels were up-stock and that is the primary effect that we were talking about.

Richard: I am just shifting to jewellery. This sequential decline in capital employed of about Rs 700 crores or so. What would be the reason for that? Is that because of more gold on lease or anything like that?

S. Subramaniam: No, the inventory, we had an inventory reduction.

Richard: You had about Rs 2,300 crores of capital employed in jewellery which has become 1,700 in the consol segment reporting.

Management: I think that is the result of cash. That in the financial you do not have cash. We take cash out.

C.K. Venkataraman: So, we certainly Richard, we certainly decrease the inventories fell about 450 crores June 2018 versus March 2018. So, that was a big reduction in the capital employed clearly. That would have contributed to much of the difference that you are talking about. Much better management of old stock.

Moderator: Thank you. The next question is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman: Two questions from my end. Firstly, can you tell us what the customer growth was in jewellery? And secondly on this inventory reductions was this in inventory reduction in the sense that you just cut down inventory retail inventory or was this more of a reduction at your facilities or the stock of gold that you hold?

C.K. Venkataraman: The customer growth was more or less flat for the quarter and the inventory reduction was in the stores, substantially in the stores. And see what happens is that the share of old inventory which is, if I would take more than 12 months, more than 12 months starts becoming less and less productive even the store staff gets a little sort of detached from it. So, a much better management of recycling that more than 12 months extracts value from the inventory without really affecting choice for the customer.

Aditya Soman: So, no, I did not understand the last bit, so …

C.K. Venkataraman: Supposing a store has got 50 kg of inventory and let us say 15 kg of that is more than 12 months which means that it is not really appealing to the customer. It is not really useful in sales. So, if I take out 10 out of the 15 kg and build it up across the country I make it 1 tonne or 500 kg for example, right. Without affecting the choice offered in those stores 500 kg of stock has extracted and used for production. We recycle it and use for production. So, the resultant 30th June inventory is 500 kg less than 31st March without …

Aditya Soman: Sir, but this will just be the finished good inventory, right. So, your overall inventory in the system should remain the same, right?

C.K. Venkataraman: No, if you are keeping Rs 2,000 crores of inventory before this action and 1,600 crores of inventory after this action then total inventory reduces. Because we do not buy instead of buying gold we…..

Aditya Soman: Sir, instead of just buying it just goes back to your…..

C.K. Venkataraman: Production is less than sales

Moderator: Thank you. The next question is from the line of Prasad Deshmukh from Bank of America. Please go ahead.

Prasad Deshmukh: First question, couple of months back there was a talk of credit squeeze for small jewelers as a result of this banking, alleged banking scam and so on. Just wanted to know if there is any improvement at the industry level in terms of credit availability for smaller regional jewelers?

S. Subramaniam: My understanding from some discussions with banks has been that they have been tight and they will continue to be tight.

Prasad Deshmukh: And secondly, is there any update on this 100% hall marking regulation, I mean it was supposed to be notified in June but the date has got delayed?

Management: No update.

Moderator: Thank you. The next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: Sir, first question, 5-year growth aspiration for jewellery business of 20%. What is the industry growth rate which you are factoring in? And did you imply that the 10% to 20%-25% decline which the industry saw this quarter was largely because of the base effect and there is nothing wrong structurally, I think otherwise nothing had changed, that is the first question?

C.K. Venkataraman: 5% is the approximate growth rate that we had assumed in our FY23 thinking. As supposed to our 20% CAGR and the first quarter 10% to 25% decline, I am not very sure how much of it is structural part of it is certainly base effect. And part of it is for multiple reasons the rest of jewellery industry is under pressure. One is the credit squeeze that Subbu was referring to, the second is the customers worry about buying from disreputable jewelers and all that. There was a complication of the gold rate itself zooming like that in parts of May and certainly parts of June. And just 3 months we will have to see whether there is any slightly longer-term trend to it once we do another quarter, but the 5% is the assumption for 5 years.

Kunal Vora: And second just a bookkeeping question, sir. Your depreciation this quarter increased by 42% year-on-year. Is there some asset which you capitalized, any investment which you made?

S. Subramaniam: No, two things. One is that last year we moved from rented premise to our own corporate premise, right. And that depreciation kicks in. Secondly, we also changed some of the depreciation of furniture & fixtures. We are accelerating a depreciation because of the life when we worked it out. So, that is the reason why the depreciation is high.

Kunal Vora: So, this will be the new base going forward?

S. Subramaniam: Yes, you can take that.

Moderator: Thank you. The next question is from the line of Harit Kapoor from IDFC Securities. Please go ahead.

Harit Kapoor: I had 2 questions on the industry scenario in jewellery. The first question was on the June month in the base you had said there is a 100% growth. Would it be fair to assume that probably industry would have seen in line or even higher growth given that gold sales would have been higher for say smaller jewelers? And hence even the industry decline is sharper on account of that, would that be a fair assumption?

C.K. Venkataraman: Very difficult to answer that. See, the GST related advancement of 250 crores that we had, it is very likely that it would have been common to the other industry. Everybody would have sort of advance their purchase. So, the last 10 days of June which was some 300% growth we had, possible. But the first 20 days of June last year we had a very successful exchange scheme because of which that 100% for the whole month of June was also driven by the first 20 days, our exchange scheme, industry did not have something like that. So, I am not very sure whether the industry base was also 100% plus. See, there decline is also to do with see, we are for example, our exchange scheme is a powerful engine which is driving our performance now. There has been no such change in the industries policy. I am not very sure whether the 100% was equally operative there.

Bhaskar Bhat: I have one more hypothesis's which is not substantiated. See, this year this phenomenon of Adhik Maas was prevalent. So, the wedding dates in the April-June quarter were far less. Now the proportion of wedding sale jewellery sale in the industry trade is higher than our proportion. Therefore, the decline is therefore higher is my hypothesis and we are therefore relatively better off in a quarter when the wedding sale is low. So, that is the third reason, I feel.

Harit Kapoor: The next question was on the gold prices. So, anything you picked up from customers that they are shying away a little bit because of this gold price movement, initial signs that you picked up yet or it is too early to say?

C.K. Venkataraman: Right now, you are saying or in the month of June certainly we picked up because when we keep calling customers, they will say, no the gold rate is little high now, will come later. These are the signals which we used to conclude that they are staying away for the moment. And the rate itself was high.

Moderator: Thank you. The next question is from the line of Nehal Shah from Deutsche Bank. Please go ahead.

Manoj: This is Manoj here. So, did I hear correctly that, was there a statement that the customer acquisition growth is actually flat as we speak?

C.K. Venkataraman: I mean, little in low single digits, Manoj. The retail sales growth in the first quarter was 8%, if I remember right, whereas the reported company sales is 4ish. So, in that 8 some 4% or 5% was gold price increase for the quarter. So, it is in a very low single digit, so almost as good as flat. That is the point I was making. Not precisely flat but very low single digits.

Manoj: Venkat, the context I was asking is because we added 43 stores last year, we had 10 new stores in the first quarter which itself is actually a first half heavy itself. So we had added lot of new stores that is one context. The second is that we had these encouraging exchanges scheme that 1 carat extra, if I remember correctly in July-August of 2017 and then again in March, which I presume is still continuing, these are all customer acquisition tools. I am just trying to understand that is there a general tapering effect on acquisition or how do you I think about this?

C.K. Venkataraman: No, in the first 2 months of the month we grew close to 20% in sales and in that customer growth would have been some 15%. It is in the month of June that crashed 18% in sales and therefore June had a pretty high ticket size I remember of June 2018. So, I had a big customer decline in June of 2018. So, together it is may be a marginal growth in Q1. Whereas, July we are up significant increase in our customer growth in July is nearly 45%.

Manoj: This 70% number if I remember correctly you said 45 out of this 70 is actually customer growth.

C.K. Venkataraman: But the base is low, therefore we have to take it to the pinch of salt. But if I take the last week of July where sales value growth is about 40%, the customer growth is nearly 20%.

Manoj: And secondly, Subbu going through the information update which you publish at the end of the quarter, I believe this was slightly different because you spoke a lot about there is a paragraph on the imports and how actually that comes down, etc. The only context I wanted to ask is that if I recall and looked at you earlier such releases, we have never really commented about the gold imports, I mean the macro part of it actually. It is more about jewellery, so is there any message there or is it just that such an exceptional, some sort of an event which happened so you just kind of called it out. Because I think if you ask me that should not had any impact on your business because you are adornment and this is more to do with what is otherwise happening.

S. Subramaniam: The fact that what we have also seen from channel checks that there has been a decline in the quarter was the message you are trying to say.

Bhaskar Bhat: The industry performance.

S. Subramaniam: As the whole industry has not performed.

Bhaskar Bhat: He was trying to use that to support the fact that industry has decline and we have not grown to the extent we would have liked in the sense therefore market share improvement.

C.K. Venkataraman: So, it is corroborating what you are hearing on the ground from our contacts with various jewelers.

Moderator: Thank you. The next question is from the line of Abhishek Ranganathan from Ambit Capital. Please go ahead.

Abhishek Ranganathan: So, my question was on the ticket size largely on where are we on average ticket sales today and the ticket size in wedding?

Management: Where are we on the ticket size? We are around Rs 75,000.

Abhishek Ranganathan: I am wondering on the ticket size because it was Rs. 70,000 in a couple of years ago.

Bhaskar Bhat: 65,000.

Bhaskar Bhat: 65-67.

Abhishek Ranganathan: So, the 75 is the average, I would imagine that wedding would have taken it up further?

C.K. Venkataraman: But wedding did not do well in quarter 1?

Abhishek Ranganathan: No, I am asking for actually let us leave quarter aside. I am just asking for maybe a longer period of time say trading 12 months for just last year. Just wanted to get a sense because we would capture the entire season.

C.K. Venkataraman: No, we had, if I remember right we had nearly 10% growth in ticket size last year and I think 13%-14% buyer growth. So that 25 came through a combination of 13 customer and 10 ticket. Whereas, this year we are targeting for something like 17-18 customer and 5 or 6 ticket. Because the early gains have come, the low hanging fruits have been plucked. Now, we are reaching for the higher branches and therefore ticket size growth is going to be little less.

Moderator: Thank you very much. That was the last question, I now hand the conference over to the management for their closing comments.

Bhaskar Bhat: Thank you very much for being on the call. We do, the first quarter was poor by way of topline growth but July onwards we do expect much better growth at least. Margin as I have been taking about there is, there are many effects sitting in the margin. So, it has been a healthy quarter by way of margin but sustaining that certainly in the watch business is not at that level. On the demand side we do not see any slackening, we certainly see good demand going forward and so if Q2 we are up and running achieving our target then I believe for the whole year, we will be doing fabulously well. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Titan Company Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.